

**TESTIMONY**  
**OF**  
**TOM W. GRIFFITH, PRESIDENT**  
**NATIONAL RURAL LETTER CARRIERS' ASSOCIATION**  
**BEFORE THE**  
**COMMITTEE ON GOVERNMENTAL AFFAIRS**  
**UNITED STATES SENATE**  
**ON**  
**S. 1527**  
**THE CIVIL SERVICE PENSION REFORM ACT**

**September 10, 1985**

Mr. Chairman and Members of the Committee:

My name is Tom W. Griffith. I am the President of the 66,000-member National Rural Letter Carriers' Association. Rural letter carriers serve fifteen million American families by daily traveling 2,387,951 miles over 38,925 rural routes throughout these United States. We are honored to appear before the Committee on Governmental Affairs and to offer our testimony on your bill. We are grateful for your dedication and diligence in mastering the complexities of developing a new retirement system.

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We compliment you on the series of pension forums. They were unique and educational. They provided a good opportunity to bring forth diverse information. We appreciate you and your staff's great effort and continuing work on this subject as you and the Members of this Committee attempt to write legislation for our new retirement system.

Let us, for the record, say that it is our desire to see a bill passed into law this year. But, if it takes slightly longer, then let's not sacrifice quality for haste.

We think your basic design is a good one, and you are to be commended for it. It is like an automobile. And, like even a fine automobile, from time to time, they require some fine tuning. In no way do we think that the basic design must be scrapped at all. We like the basic design and appreciate the effort that you and your staff have put into it, but we would like to see it fine-tuned.

I will attempt to outline those areas of the plan which we are particularly pleased with, and those areas in which we think there could be some fine-tuning to improve your bill.

We view the program as consisting of three tiers, the first of which is Social Security. As we all know, there is a tilt to Social Security.

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The second tier is the defined benefit portion. We are pleased with your add-on approach, because the tilt favors lower salaried employees and can be offset by a voluntary supplemental capital accumulation plan. Any offset would concentrate benefits on the higher paid workers in the system and lesser benefits to the lower paid employees. By your simple add-on plan, the Federal Government would be setting a good example for private employers. Higher paid employees have much greater disposable income and, therefore, have the ability, through their own savings initiative, to compensate for the Social Security tilt.

Employee Contributions - We think the employee contribution level should roughly equal current contributions to the Civil Service Retirement System. Currently, employees pay 7% of their salary, plus 1.35% for Medicare. Employees, under the system which the Committee is now designing, will pay, by 1990, 6.2% Social Security. We recommend that employees contribute to the defined benefit program in an amount which will provide equal contributions between the existing plan and the proposed plan.

There is historical precedence for public employees' participation in contributory staff retirement systems. We realize that in the forums, it was pointed out that private sector retirement systems are largely non-contributory. However,

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those corporations have an entirely different mission compared to the Government. They are organized for, and have a responsibility to their shareholders to make a profit. That is not our Government's function. Private business also receives a tax deduction for their contributions to a retirement plan. The Government obviously cannot. We believe employee contributions give a certain amount of budgetary flexibility to the rest of the Federal Budget and may prevent the temptation of a future Congress to alter the plan, after you have adopted it. Simply stated, a plan in which the employees have a direct stake in funding will discourage legislative tampering in the future.

The accrual rate in the defined benefit plan should be increased and be more generous. There should be a reward for longer service at a higher accrual rate than for early employment.

We approve of most of the vesting schedule, with the exception of the penalty for early retirement. We would like to see the bill changed so employees would have the ability to retire after 30 years of service at 55 years of age without any penalty. We propose that employees who would be interested in that early retirement option could contribute an additional amount to this optional program. The program would be a portion of the defined benefit plan and the employee would have to opt

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early in their service career to pay an additional contribution, with a Government match, to the defined benefit plan and have the ability to retire at 55 years of age with 30 years of service without penalty. In effect, the employee would have the option to purchase the right for early retirement.

Computation - We support High-3 instead of High-5 salary base for benefit computation.

We believe in the funding adequacy of the current system. And, we would hope that the funding mechanism in this new system protects it from political manipulations. We appreciate the fact that, in your bill, all funds from the defined benefit program would flow into the existing Civil Service Retirement Fund, which will protect its assets in perpetuity for all who will be retiring under the old system.

Cost Of Living Adjustments should be fully indexed. The formula should be the same as now exists under the current Civil Service Retirement law. We noted from the charts done by Congressional Research Service that a retiree, even with a capital accumulation plan, looking at the amount of wages that his pension replaces, has that go down as much as 20 points from the time of their retirement until approximately age 75. Frankly, we find that a difficult concept to accept. The Federal Government

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has been, and should continue to be, a morale force in the work place - a precedent setter. When Government has a fully indexed COLA, it sets an example. The testimony at the forums pointed out that most private employers do not have a cost-of-living adjustment provision. However, most of them, at least make ad hoc adjustments every three to five years. We feel the reason for those ad hoc adjustments is the pressure that the Federal Government has brought in the work place by having fully indexed COLAs. It is a very positive example that the Federal Government has set and it should continue. When there is a modest reduction in the capital accumulation section, along with an employee contribution, then the COLA program should continue as it exists in the current system with virtually no increase in cost.

Recently, the President amended his tax reform plan to urge repeal of the (401)-K tax-shelter capability. His proposal gives us cause for concern about the capital accumulation plan in this bill. Loss of tax deferral would be a significant loss to employees. We certainly urge retention of this tax benefit.

With regard to the savings portion, we compliment you for your innovation and flexibility in the design of this section. From the standpoint of our particular membership, however, we would like to point out to the Chairman and Members of this Committee several reasons why we prefer slightly less emphasis

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on savings and a little more on defined benefit. A rural letter carrier starts out at about \$17,000.00 a year. The average rural carrier, at the top of their career, is making about \$26,000.00 a year. In those pay ranges, few of our members will be financially able to participate in a voluntary savings program early in their lives as they buy their first residence, as they have the first additions to their families, and, as their children grow up, the expenses of a family will come first. Savings, unfortunately, will probably take a back seat to these things for most rural carriers.

However, when the children are finally out of the nest, then our suspect is that they will begin to consider retirement. We would suspect that they will participate in the capital accumulation plan. However, when it is done later in life, rather than consistently throughout a career, the total benefit is much smaller compared to that when the employee has participated throughout an entire career.

For in a savings capital accumulation plan, compounding is what really builds it. A relatively short period of savings will simply not build a large nest egg going into retirement.

Voluntary savings by an employee should be allowed up to 10% of their pay. The Government's one-for-one match should

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be limited to 3% of salary. The 5% proposed in the bill is unnecessarily generous and too costly.

Mr. Chairman, again, we offer our appreciation to you and your hard-working staff for the care and concern you have shown in the process of developing this very fine piece of legislation, which, with the fine-tuning we have suggested, we could easily support. We look forward to continuing to work with you on this complicated issue and appreciate your interest and concern about an adequate retirement program for new rural carriers.